

TREASURY DEPARTMENT

Washington

FOR RELEASE ON DELIVERY

REMARKS OF THE HONORABLE ROBERT A. WALLACE
ASSISTANT SECRETARY OF THE TREASURY
BEFORE A LUNCHEON OF THE SILVER USERS ASSOCIATION
WALDORF-ASTORIA HOTEL, NEW YORK, NEW YORK
FRIDAY, JANUARY 12, 1968, 1:00 P.M.

THE TREASURY SILVER AND COINAGE PICTURE, JANUARY 1968

THE OPPORTUNITY TO DISCUSS THE SILVER AND COINAGE SITUATION WITH THE SILVER USERS ASSOCIATION IS MOST WELCOME. THIS GROUP HAS A NATURAL STAKE IN SILVER, NOT SIMPLY BECAUSE YOU "USE" IT, AS YOUR NAME IMPLIES, BUT BECAUSE IT IS A VITAL INGREDIENT IN YOUR BUSINESSES. THE REAL SILVER USER IS THE CONSUMER. DIRECTLY OR INDIRECTLY, THIS IS JUST ABOUT EVERY ONE OF US.

MOREOVER, I THINK IT'S ABOUT TIME I ADDRESSED ONE OF YOUR MEETINGS. AFTER ALL, I HAVE BEEN CONCERNED WITH COINAGE AND SILVER SINCE 1961. NOT ONLY THAT, BUT, OBVIOUSLY, ONE OF MY KINSMEN STARTED A VERY IMPORTANT SILVER USING FIRM -- WALLACE SILVERSMITHS.

WELL NOW, JUST A MOMENT. I WILL HAVE TO CHECK THAT. I MAY HAVE THAT WALLACE CONFUSED WITH THE ONE IN THE SILVER PRODUCING AREA WHO STARTED THE TOWN OF WALLACE, IDAHO.

I MUST STRAIGHTEN THIS OUT. I HAVE THE SAME PROBLEM REMEMBERING WHETHER I AM RELATED TO GEORGE WALLACE -- OR HENRY WALLACE.

PERHAPS I AM RELATED TO THEM ALL.

I SHALL KEEP MY REMARKS BRIEF SINCE THIS WOULD BE THE LAST AUDIENCE TO REQUIRE AN EDUCATION ON THE HISTORY OF SILVER PROBLEMS AND POLICIES. CONSIDERING YOUR INTEREST IN SILVER, HOWEVER, YOU CERTAINLY HAVE A RIGHT TO KNOW AS MUCH OF THE FACTS AS POSSIBLE. MOREOVER, WHERE FACTS DRIFT INTO OPINIONS ON POLICIES, YOU NEED TO KNOW THE CONSIDERATIONS INVOLVED IN REACHING FINAL DECISIONS.

THE JOINT COMMISSION ON THE COINAGE IS, OF COURSE, THE BASIC GROUP FOR THE CONSIDERATION OF POLICY ALTERNATIVES. IT WAS THE INTENT OF THE CONGRESS IN CREATING IT WITH THE ENACTMENT OF THE COINAGE ACT OF 1965 THAT THE COMMISSION SHOULD PLAY A VITAL ROLE IN THE FORMULATION OF ALL IMPORTANT SILVER AND COINAGE POLICIES. OF COURSE, WE IN THE TREASURY DEPARTMENT CANNOT AVOID THE FINAL RESPONSIBILITY FOR ALL ACTIONS TAKEN.

THE COMMISSION HAS BEEN AN INVALUABLE ASSET TO THE COUNTRY. OF ITS 24 MEMBERS, 12 ARE LEADING MEMBERS OF CONGRESS WHO ARE CONCERNED WITH SILVER POLICIES, 8 PUBLIC MEMBERS ARE APPOINTED BY PRESIDENT JOHNSON, AND 4 ARE DRAWN FROM THE EXECUTIVE BRANCH OF THE GOVERNMENT. TREASURY SECRETARY FOWLER IS THE CHAIRMAN.

THE COMMISSION HAS MET THREE TIMES. SIGNIFICANT ACTIONS WERE TAKEN AFTER THE FIRST TWO MEETINGS ON MAY 18 AND JULY 14, 1967. AFTER THE MAY MEETING, THE TREASURY RESTRICTED SALES OF ITS SILVER AT THE \$1.29 AN OUNCE PRICE TO INDUSTRIAL USERS ONLY. AFTER THE JULY MEETING, THIS CEILING PRICE WAS DROPPED ALTOGETHER. SINCE THEN ALL SALES HAVE BEEN MADE ON THE BASIS OF COMPETITIVE BIDS AT THE MARKET. AT THE THIRD MEETING, WHICH TOOK PLACE ON SEPTEMBER 18, THE COMMISSION REVIEWED DEVELOPMENTS FOLLOWING THEIR PREVIOUS HISTORIC DECISIONS TO SEE IF ANY FURTHER CHANGES WERE WARRANTED. NONE WERE RECOMMENDED. THE NEXT MEETING WILL BE MARCH 1, 1968, AT WHICH TIME ANOTHER REVIEW OF CURRENT POLICIES WILL BE UNDERTAKEN.

COINAGE SITUATION

FOR SEVERAL YEARS, THE THREAT OF SEVERE COIN SHORTAGES HAS CONSISTENTLY LURKED IN THE BACKGROUND OF ALL OUR SILVER POLICIES -- SO MUCH SO THAT ALL OF THESE POLICIES HAVE BEEN GEARED TO THE PREVENTION OF WHAT COULD BE A GENUINE CATASTROPHE -- A NATION WITHOUT ENOUGH COINS TO CONDUCT ITS BUSINESS.

OUR MOST DANGEROUS PERIOD IN THIS RESPECT WAS IN EARLY NOVEMBER 1965. AT THIS TIME, JUST BEFORE THE CHRISTMAS SEASON OF PEAK COIN DEMAND, AND DESPITE OUR TREMENDOUS LEVEL OF COIN PRODUCTION, OUR FEDERAL RESERVE INVENTORIES OF QUARTERS HAD ALMOST COMPLETELY DISAPPEARED. WE HAD AVAILABLE ONLY 15 MILLION OF THESE COINS FOR THE ENTIRE COUNTRY. FORTUNATELY, UNDER THE AUTHORITY OF THE COINAGE ACT PASSED A FEW MONTHS BEFORE, WE HAD BEEN ABLE TO PRODUCE 200 MILLION OF THE NEW CLAD QUARTERS WHICH WE QUICKLY PLACED IN CIRCULATION, THEREBY AVOIDING WHAT MIGHT HAVE BEEN A REALLY MISERABLE SITUATION.

EARLY IN 1966, I TOLD A CONGRESSIONAL COMMITTEE THAT AT LEAST IN THE CASE OF THOSE COINS VITAL TO CIRCULATION -- THE PENNY, NICKEL, DIME, AND QUARTER -- THERE WOULD BE NO MORE SHORTAGES. NEVERTHELESS, WE STILL FACED THE TASK OF PRODUCING ENOUGH OF THE NEW CLAD DIMES AND QUARTERS TO OFFSET THE POSSIBILITY OF A COMPLETE DISAPPEARANCE OF SILVER DIMES AND QUARTERS BEFORE WE COULD SAFELY STOP TREASURY SALES OF SILVER AT \$1.29 AN OUNCE. SHORTLY BEFORE WE COULD ACCOMPLISH THIS GOAL -- IN MAY OF 1967 -- WE WERE CONFRONTED WITH A RUN ON OUR SILVER SUPPLIES WHICH MADE IT NECESSARY FOR US TO STOP SALES OF SILVER AT THIS PRICE EXCEPT TO THOSE WHO WERE IN THE SILVER BUSINESS.

BY MID-JULY OF 1967, WE HAD PRODUCED ENOUGH OF THE CLAD DIMES AND QUARTERS TO REPLACE ALL THE SILVER COINS OF THESE DENOMINATIONS ESTIMATED TO BE IN CIRCULATION. THUS, ON JULY 14 THE COMMISSION RECOMMENDED, AND THE TREASURY ADOPTED, A POLICY CEASING SALES OF SILVER AT \$1.29 AN OUNCE.

FUTURE SALES OF TREASURY SILVER WERE TO BE MADE BY THE GENERAL SERVICES ADMINISTRATION AT A RATE OF TWO MILLION OUNCES A WEEK.

AS A SAFETY FACTOR, THE FEDERAL RESERVE BANKS NO LONGER ISSUED SILVER COINS. MIXED SILVER AND CLAD DIMS AND QUARTERS WHICH FLOWED BACK FROM THE BANKING SYSTEM TO THE FEDERAL RESERVE BANKS WERE HELD IN MINT AND FEDERAL RESERVE INVENTORIES. THE COINS ISSUED TO REPLACE THEM WERE ALL MADE OF THE NON-SILVER, CLAD MATERIAL.

NOW, IN EARLY JANUARY 1968, WE HAVE GONE THROUGH ANOTHER CHRISTMAS SEASON WITHOUT ANY PROBLEMS. I CAN NOW SAY WITHOUT ANY EQUIVOCATION WHATSOEVER THAT THERE IS ABSOLUTELY NO DANGER OF A SHORTAGE OF QUARTERS, DIMS, NICKELS, AND PENNIES IN THE FORESEEABLE FUTURE.

THE 40 PERCENT SILVER HALF-DOLLAR REMAINS IN SHORT SUPPLY, BUT EVEN THIS COIN HAS ACHIEVED CIRCULATION IN MANY PARTS OF THE COUNTRY.

TREASURY SILVER SUPPLIES

AT THE LAST MEETING OF THE COINAGE COMMISSION ON SEPTEMBER 18, WE MADE A "BEST ESTIMATE" OF THE AMOUNT OF SILVER WHICH WOULD BE AVAILABLE ON JUNE 30, 1968. BY THAT TIME, WE WILL HAVE ALLOTTED TO THE OFFICE OF EMERGENCY PLANNING 165 MILLION OUNCES OF SILVER AS A DEFENSE STOCKPILE. MOREOVER, AFTER THAT DATE, SILVER CERTIFICATES WILL NO LONGER BE REDEEMABLE FOR SILVER. WITH THE OEP STOCKPILE REQUIREMENT MET AND SILVER CERTIFICATES NO LONGER REDEEMABLE FOR SILVER, WE CAN KNOW BY JUNE 30 HOW MUCH SILVER WE WILL HAVE AVAILABLE FOR SALES TO THE MARKET AND FOR FUTURE COINAGE. ALLOWING FOR THE CONTINUED SALE OF TREASURY SILVER AT A RATE OF TWO MILLION OUNCES A WEEK, PROVIDING FOR THE STOCKPILE REQUIREMENT, SILVER CERTIFICATE REDEMPTIONS AND COINAGE, OUR ESTIMATE THEN WAS THAT THE AMOUNT OF SILVER WE WOULD HAVE AVAILABLE ON JUNE 30, 1968, IN BULLION AND IN COINS, WOULD BE BETWEEN 350 AND 400 MILLION OUNCES. ADDITIONAL SILVER WOULD BECOME AVAILABLE AFTER THAT DATE AS A RESULT OF FUTURE INFLOWS OF SILVER COINAGE.

FOUR MONTHS HAVE ELAPSED SINCE THAT PROJECTION WAS MADE. OUR EXPERIENCE TO DATE, WHICH TAKES INTO ACCOUNT AN ADDITIONAL FOUR MONTH'S INFLOW OF SILVER COINS AND FOUR MONTH'S REDEMPTIONS OF SILVER CERTIFICATES, INDICATES THAT THIS ESTIMATE WAS ACCURATE. AS WE HAD ANTICIPATED, THE TREASURY'S TOTAL HOLDINGS OF SILVER IN BULLION AND COINS ARE NOW ACTUALLY LARGER THAN THEY WERE LAST SEPTEMBER, DESPITE THE COPPER STRIKE WHICH AFFECTS THOSE COMPANIES PRODUCING SILVER AS A BYPRODUCT OF COPPER.

AS OF SEPTEMBER 18, WE HAD IN MINT AND FEDERAL RESERVE INVENTORIES AN ESTIMATED 125 MILLION OUNCES OF SILVER IN THE FORM OF COINS. SINCE THAT TIME, AN ADDITIONAL 85 MILLION OUNCES HAS BEEN TAKEN IN, BRINGING THE TOTAL ESTIMATED HOLDINGS OF SILVER IN COINS UP TO 210 MILLION OUNCES. TO MEET THE SEPTEMBER ESTIMATE OF SILVER AVAILABLE FROM THIS SOURCE BY JUNE 30, WE NEED TO ADD ONLY 45 MILLION OUNCES. I AM CONFIDENT THAT WE WILL EASILY EXCEED THIS AMOUNT. WE HAVE NOT YET MELTED ANY OF THESE BECAUSE OF THEIR POSSIBLE USE AS A STANDBY SOURCE OF COINS IN CASE A NEED HAD DEVELOPED DURING THE 1967 CHRISTMAS SEASON. THIS CONTINGENCY IS NOW PAST. WHILE NOT NEEDED NOW, THE SILVER IN THESE COINS COULD BE MADE AVAILABLE FOR USEFUL PURPOSES BENEFICIAL TO BOTH SILVER USERS AND TAXPAYERS WHENEVER NECESSARY.

SALES OF TREASURY SILVER

WHILE THERE WILL ALWAYS BE DIFFERENCES OF OPINION OVER DETAILS, BOTH THE SILVER USERS AND TAXPAYERS HAVE ALREADY BENEFITED BY THE GSA SALES OF SILVER BULLION. SINCE AUGUST 4, GSA HAS SOLD 45 MILLION OUNCES OF SILVER FOR USE IN THE MANUFACTURE OF SILVER USING PRODUCTS, AND THESE SALES HAVE RESULTED IN A PROFIT OF \$22-1/2 MILLION TO TAXPAYERS.

FOR SOME TIME, IT HAS BEEN THE DESIRE OF THE TREASURY DEPARTMENT TO "GET OUT OF THE SILVER BUSINESS." BY THIS WE MEANT THAT WE WANTED TO STOP CONTROLLING THE PRICE OF SILVER, WHICH HAD BEEN NECESSARY IN RECENT YEARS IN ORDER TO PROTECT THE COINAGE. THIS FINALLY BECAME POSSIBLE LAST JULY.

NOW THERE STILL MAY BE SOME UNCERTAINTY AS TO WHY THE TREASURY'S WEEKLY SILVER OFFERING TO THE MARKET WAS SET AT TWO MILLION OUNCES. THE RATIONALE IS SIMPLY THIS: IF YOU EXCLUDE THE UNITED STATES FROM THE FREE WORLD, THERE IS VIRTUALLY NO SUPPLY-CONSUMPTION DEFICIT OF SILVER. WE ACCOUNT FOR THE ENTIRE FREE WORLD DEFICIT OF ABOUT 100 MILLION OUNCES A YEAR RIGHT HERE IN THE UNITED STATES. THIS IS NOT TO SAY THAT ALL THE SILVER SUPPLIES IN THE WORLD ARE MADE AVAILABLE FOR USE IN MANUFACTURING -- SOME OF IT MAY BE HELD FOR SPECULATIVE PURPOSES. BUT I THINK FEW WOULD EXPECT THE TREASURY DEPARTMENT TO MAKE UP FOR WHATEVER SPECULATIVE HOARDING TAKES PLACE. TO DO THAT WOULD BE TO CONTINUE CONTROLLING THE WORLD PRICE OF SILVER FROM WASHINGTON.

THE TWO MILLION OUNCES A WEEK RATE WOULD GENERALLY BE SUFFICIENT TO REPLACE BOTH THE U. S. AND THE WORLD DEFICIT, HAVING A GENERALLY NEUTRAL EFFECT ON THE PRICE OF SILVER. SELLING SILVER AT A GREATER RATE SHOULD THEORETICALLY HAVE A DEPRESSING EFFECT ON THE PRICE, WHILE SELLING IT AT A LOWER RATE SHOULD HAVE THE EFFECT OF PUSHING UP THE PRICE. SINCE IT WAS THE DESIRE OF THE COMMISSION THAT SILVER SALES SHOULD HAVE A NEUTRAL EFFECT ON THE PRICE, THE TWO MILLION OUNCES A WEEK RATE WAS SET. OF COURSE, THIS RATE CAN BE REVIEWED FROM TIME TO TIME. IT SHOULD BE REMEMBERED, HOWEVER, THAT THE SILVER SOLD AT THESE SALES IS SUPPLEMENTED BY THE ADDITIONAL SILVER BEING MADE AVAILABLE FOR USE THROUGH THE REDEMPTION OF SILVER CERTIFICATES.

REDEMPTION OF SILVER CERTIFICATES

DESPITE THE FACT THAT PREMIUMS ARE BEING PAID FOR SILVER CERTIFICATES BECAUSE THEY CAN BE USED TO OBTAIN SILVER FOR LESS THAN CURRENT MARKET PRICES, THE RATE OF THESE REDEMPTIONS IS NOT EXCEEDING EXPECTATIONS. THESE REDEMPTIONS HAVE AVERAGED ABOUT THREE MILLION OUNCES A MONTH SINCE THE BEGINNING OF JUNE.

AT THIS RATE, WE COULD EXPECT REDEMPTIONS TO BE IN THE NEIGHBORHOOD OF 20 MILLION OUNCES BETWEEN NOW AND JUNE 24, 1968, WHEN SILVER CERTIFICATES WILL NO LONGER BE EXCHANGEABLE FOR SILVER.

OTHER ISSUES

THERE ARE OTHER ISSUES OF INTEREST TO THIS GROUP WHICH WILL CONTINUE TO BE A SUBJECT OF DISCUSSION BY THE COINAGE COMMISSION. I WILL NOT GO INTO DETAIL ON THESE MATTERS.

I THINK, HOWEVER, THAT ONE IMPORTANT CONSIDERATION SHOULD BE BORNE IN MIND, AND IT IS THIS: AMONG MANY MEMBERS OF CONGRESS, MEMBERS OF THE COINAGE COMMISSION, AND TREASURY OFFICIALS, THERE IS A DISTINCT LACK OF SYMPATHY FOR THOSE WHO ENGAGE IN HOARDING AND SPECULATION IN SILVER COINS. THEIR ACTIVITIES SEVERELY HANDICAPPED OUR ACTIONS TO DEAL WITH PAST COIN SHORTAGES. THE POSSIBILITY OF EVER PERMITTING THEM TO REAP WINDFALL PROFITS OF MILLIONS OF DOLLARS AT THE EXPENSE OF TAXPAYERS WILL, TO SAY THE LEAST, NOT BE VERY POPULAR.

CONCLUSION

I THINK THE RECORD OF CONGRESS, THE COMMISSION, AND THE TREASURY INDICATES A FULL AWARENESS OF THE PROBLEMS OF THE SILVER USERS. BUT I THINK WE WOULD ALL AGREE THAT THE GENERAL INTEREST OF THE NATION IS PARAMOUNT. UNTIL JULY OF LAST YEAR, YOU WERE THE BENEFICIARY OF THE POLICIES MADE NECESSARY BY COINAGE CONSIDERATIONS. YET, WHEN THE TIME CAME TO END THESE POLICIES, THIS GROUP WAS READY TO ACCEPT THE CHANGES, DESPITE THE RESULTING HIGHER COSTS OF YOUR RAW MATERIALS. FOR THIS OVERALL UNDERSTANDING OF THE TOTAL PROBLEM, WE IN THE GOVERNMENT ARE MOST GRATEFUL.

THANK YOU VERY MUCH.